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U.S.-JAPAN DEFENSE RELATIONS: AN UPDATE

Summary

U.S.-Japan defense relations during the past year have been buffeted by tensions in bilateral economic relations and may be undergoing an important transition. Despite the steady, quantitative increase in Japan's overall defense expenditures and qualitative improvements in its weapons systems, the drumbeat continues on Capitol Hill urging Tokyo to spend significantly more to support mutual security interests in the region. A precedent-setting project to jointly develop and build Japan's new fighter aircraft -- a project U.S. defense planners had hoped would pave the way for greater two-way defense technology transfers -- nearly was killed by critics who charged that the FSX deal would compromise America's industrial base. U.S. officials, who traditionally have resisted any explicit trade/defense linkage in bilateral relations, are finding that this approach may no longer be practicable given current global economic and strategic conditions.

These developments provide an important backdrop as the Japanese government deliberates its FY 1990 defense budget and begins work on the 1991-95 defense program. Despite recent political gains by the neutralist-oriented Japan Socialist Party, Tokyo probably will continue to maintain a 6 to 7 percent average annual increase in defense spending and place priority on upgrading its weapons systems. But it is unclear whether legally Japan can perform some of the burdensharing tasks American legislators have demanded. In terms of weapons procurement, Japanese government and industry, stung by the FSX imbroglio, may opt increasingly for indigenous systems. Japan will remain committed to the security alliance with the United States but may pursue its treaty obligations in a more self-reliant manner.

Economic Tensions Affect Defense Policy

Since Japan's emergence as an economic power in the late 1960s and early 1970s, Washington repeatedly has pressed Tokyo to make greater contributions to support mutual security interests. Japan has not been the only target; Washington has pressed all of its allies to shoulder more of the financial burden of defending the Western alliance. Economic pressures created by its spiraling trade and budget deficits have hamstrung America's ability to continue the exponential increases in defense spending required to satisfy U.S. security activities and commitments.

Given its huge bilateral trade surplus and low defense spending as a percent of gross national product, Japan has been singled out for tough criticism in recent years, particularly by Congress. In fact, as will be discussed below, growing tensions in U.S.-Japan economic relations have affected the security side of the alliance to such an extent that Pentagon officials may no longer be able to justify on purely strategic grounds certain defense cooperation schemes with America's most important Asian ally.

Burdensharing and the Trade/Defense Linkage - For over 20 years American legislators have questioned the extent to which U.S. military protection has enabled Japan's phenomenal economic progress to occur (see JEI Report No. 35A, September 18, 1987). However, as trade irritations between the United States and Japan began to intensify in the 1980s -- and U.S. workers increasingly lost jobs when their products were unable to compete with Japanese imports -- congressional criticism of Japan's defense role grew harsher and legislators became more aggressive in trying to rectify perceived inequities. Japan became one of the prime targets in Capitol Hill discussions concerning contributions to the defense of the Western alliance -- the so-called burdensharing debate.

The crux of the argument, which attempts to link the economic and the defense aspects of the alliance, is that Japan has taken the "savings" from its "free ride" under the U.S. security umbrella and channeled them into commercial success -- to the detriment of American industry and workers. Tokyo, therefore, should use more of its wealth for defense, the argument goes, which would enable the United States to shift more defense monies toward regaining its industrial competitiveness. The implication is that increased defense spending will hurt Japan economically and brake the trade juggernaut.

During the past two years numerous congressional measures have been introduced that seek to change Japan's spending priorities. These run the gamut from proposals that call on Japan to spend 3 percent of its GNP on defense (up from the current 1 percent) to measures that would impose a "defense protection fee" on all products shipped by allies to this country equivalent to the share of GNP that the United States spends on defense minus the percent the exporting ally spends on defense (see JEI Report No. 19A, May 13, 1988).

U.S. defense officials, who have based their calls for increased Japanese defense spending primarily on strategic concerns, contend that the specific trade/defense linkage underlying these measures is flawed. (In fact,

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State and Defense Department officials have for years pursued an implicit linkage strategy "in reverse," contending that Japan's role as a key ally should restrain any tough U.S. trade pressures on Tokyo.) Arguing against the latest Capitol Hill proposals, U.S. defense officials say Japan's defense budget has a rationale of its own based on an assessment of external threats, not on its trade balance with the United States. From a strategic standpoint, they say, it makes more sense to urge Japan to assume certain expenditures to fulfill mutually acceptable defense goals -- the so-called "roles and missions" approach. Moreover, this argument continues, there is no clear-cut evidence to substantiate the contention that greater defense spending would hurt Japan's business and trade performance nor that America's business community would benefit. Other factors affect economic conditions and competitiveness, such as fiscal and monetary policies, corporate strategies, educational achievements, research and development priorities and other microeconomic factors.

The burdensharing argument also implies that as Japan spends more on defense, the United States will be able to cut back. Defense experts charge that this misses the point: both countries will have to do more to meet their responsibilities. "Defense cooperation is not a zero-sum game between the United States and Japan," Gregg Rubinstein, a Washington-based defense consultant, has stressed. "The issue is one of complementarity rather than substitution."

Finally, these proposals do not stipulate exactly how increased Japanese defense monies should be spent. Should Tokyo earmark trillions of yen for defense if it does not have the missions that would justify the expenditures? What would the money buy? Would such a dramatic increase in defense allocations create regional concerns about revived Japanese militarism? What would be the political feasibility of this issue in Japan, particularly now that the Japan Socialist Party, which favors a neutral defense posture for Japan, is enjoying an unprecedented surge in political popularity?

Judging by recent congressional efforts to obtain greater allied contributions to the common defense, legislators have not been daunted by such Defense Department concerns: a package of Japan-targeted burdensharing amendments made its way into the Senate-passed FY 1990-FY 1991 Defense Authorization Act, which is currently in conference committee (see JEI Report No. 31B, August 11, 1989). But unlike the "defense protection fee" and other extreme efforts to use allied defense relations to rectify U.S. economic problems, drafters of this legislation appear to have taken a closer look at Japan's current defense program to discern the areas in which Tokyo can and should do more.

Specifically, legislators appear to recognize the political difficulties Tokyo has, both domestically and regionally, in expanding its defense expenditures significantly beyond 1 percent of GNP. They also appear more open to acknowledging that economic assistance (especially aid to strategically important countries) is a valid contribution to the overall security picture. Thus, one provision of the latest burdensharing package stresses that Japan's official development assistance and military contributions, measured as a percentage of GNP, should equal those of North Atlantic Treaty Organization members by yearend 1992.

In addition, legislators have stipulated that: more foreign aid should be targeted toward the Philippines and non-Asian countries that are strategically important, especially those in Latin America, the Caribbean and the Mediterranean; a greater portion of this aid should be disbursed in the form of

untied grants; Japan should consult with security allies when selecting aid recipients; Japan should take greater strides toward achieving Tokyo's pledge to acquire the capability to defend Japanese land, airspace and sea lanes to a distance of 1,000 nautical miles to the south and east; and Japan should buy more off-the-shelf military equipment and weapons systems from the United States.

The burdensharing provisions also require the administration to negotiate with Japan to achieve Japanese security contributions equal to 100 percent of the direct costs of maintaining the U.S. forces that defend the country. (Tokyo currently provides about 40 percent of the $6 billion cost of maintaining U.S. forces in Japan.)

Suffice it to say, the legislation, although perhaps more thoughtfully crafted than previous burdensharing proposals, is not necessarily lenient on Japan. With Japan's defense spending hovering at 1 percent of GNP, its foreign aid expenditures at about 0.32 percent of GNP and the NATO combined figure averaging 3.7 percent (see Table 1), this measure nevertheless would put pressure on Japan to substantially reorder its budget priorities in the next two years.

Table 1: Security Expenditures by NATO Countries and Japan, 1986

(percent of gross national product)

Country	Defense Expenditures	Economic Assistance	Combined Expenditures
United States	6.7%	0.2%	6.9%
NATO Allies			
Belgium	3.0	0.5	3.4
Canada	2.2	0.5	2.6
Denmark	2.0	0.8	2.9
France	3.9	0.7	4.6
West Germany	3.1	0.4	3.5
Greece	6.1	---	6.1
Italy	2.2	0.4	2.6
Luxembourg	0.9	---	0.9
Netherlands	3.0	1.0	4.0
Norway	3.1	1.1	4.3
Portugal	3.2	---	3.2
Spain	2.0	---	2.0
Turkey	4.8	---	4.8
United Kingdom	5.0	0.3	5.3
Non-U.S. NATO-Weighted Average	3.3	0.5	3.7
Japan	1.0	0.3	1.3

Note: Defense expenditures for Spain and Japan use national rather than NATO definition.

Source: House Armed Services Committee, Report of the Defense Burdensharing Panel, August 1988.

Although not strongly objecting to the aid-related provisions, the administration continues to oppose burdensharing proposals that focus on spending as a percentage of GNP. Particularly with regard to Japan, the White House insists that the "roles and missions" approach is the most appropriate way to expand Tokyo's defense role in accordance with regional allied security.

Against a backdrop of persistent trade tensions, however, the distinction between the trade and the defense aspects of bilateral relations has become increasingly blurry to Congress. The burdensharing proposals are not going to go away; if these measures do not survive the House-Senate conference due to administration objections, they are bound to reappear in some other vehicle, such as upcoming defense appropriations bills. As the administration found in dealing with the controversy concerning joint development and production of Japan's new fighter aircraft (FSX), a growing body of policymakers is no longer willing to put security needs and "alliance politics" above U.S. economic interests.

FSX Project and Defense Technology Transfers - An important outgrowth of the burdensharing debate has been a focus on the economic implications of bilateral defense technology transfers. Here, again, legislators and certain administration policymakers are concerned about the longer-term economic implications of military projects ostensibly undertaken to benefit both U.S. and Japanese security needs. Specifically, they are worried that Japanese companies will spin off leading-edge technologies acquired from the United States into commercial applications that will challenge U.S. leadership in certain sectors.

Last year, for example, Congress came close to quashing Pentagon plans to sell the sophisticated Aegis weapons system to Japan. The Aegis system, which integrates various weapons, radar and computers, is to be installed on Japanese naval vessels and is a major element in the Maritime Self-Defense Force's program to insure Japan's "mission" to defend its sealanes out to 1,000 nautical miles. Several legislators tried to block the sale outright; when that tactic failed, they tried to dramatically change the terms of the deal.

Sen. J. Bennett Johnston (D, La.), for one, championed a bill that would have prohibited the sale or the transfer of Aegis or any part of Aegis to Japan "for integration into a naval vessel" unless the ship itself were built in the United States. Coming not long after the disclosure that Toshiba Machine Co., Ltd. had transferred militarily sensitive machine tool technology to the Soviet Union, the Johnston proposal was intended to assure that the Aegis sale to Japan would neither compromise U.S. security interests nor threaten the future of the American shipbuilding industry. Some of Mr. Johnston's colleagues also were worried that Japan would reverse engineer this technology and ultimately pose a competitive threat to U.S. producers. Speaking from the burdensharing mindset, some legislators argued that if mutual security interests indeed would be better served by this sale, then Japan should demonstrate its commitment to shoulder a bigger part of the defense burden by purchasing more of the ship's technology than simply the missile system (see JEI Report No. 30B, August 5, 1988).

Mr. Johnston's attempt to attach his measure to the FY 1989 defense appropriations bill ultimately failed and the bill was killed (see JEI Report No. 31B, August 12, 1988). But the debate not only stayed alive, it accelerated when the United States and Japan began discussions concerning joint development

and production of the FSX. In fact, the prevailing view of many defense analysts is that the FSX controversy irrevocably linked trade and defense aspects of U.S.-Japan relations.[1]

Congress had been concerned about the trade implications of the deal during the early stages of negotiations between the Japan Defense Agency and the Defense Department. At that time JDA was leaning toward indigenous development of the new fighter, but some members of Congress were attempting to sway Tokyo to purchase a U.S. plane outright. Legislators became so wary of the potential trade ramifications of the deal that they inserted into the FY 1989 Defense Authorization Act a provision designed to bring the Commerce Department more directly into defense technology transfer negotiations to ensure that adequate attention would be directed toward the project's potential impact on the U.S. industrial base.

However, the debate really began to pick up steam following the November 1988 signing of the memorandum of understanding that would govern joint development of the FSX (see JEI Report No. 21A, May 26, 1989). This agreement, reached after more than a year of protracted negotiations, stated that General Dynamics Corp. would provide Japan with airframe technology relating to its current F-16 fighter. Japan, in return, would provide the United States at no cost any refinements to U.S.-developed technologies already incorporated in the F-16. American companies also would have access on request to any Japanese indigenous technology for a fee. The MOU set the U.S. share of research and development at 35 to 45 percent. It also designated Mitsubishi Heavy Industries, Ltd. as the lead company to design and build the aircraft, with General Dynamics on the American side and Kawasaki Heavy Industries, Ltd. and Fuji Heavy Industries, Ltd. on the Japanese side as the primary subcontractors.

Proponents in the administration had argued the FSX project was the first test under a 1983 agreement governing defense-related technology exchanges. The goal of the agreement was to establish a reciprocal flow between the two countries so that U.S. industry also would benefit from the bilateral defense relationship. Thus, in addition to making a valuable contribution to U.S. and Japanese security needs, administration proponents maintained, the MOU was drafted to ensure that U.S. industry received tangible benefits through access to important Japanese technological advances in areas such as composite materials and phased-array radar.

Capitol Hill was not persuaded. Soon after the new Congress convened in January 1989, legislators challenged Commerce Secretary Robert Mosbacher and U.S. Trade Representative Carla Hills in their respective confirmation hearings to justify the FSX deal on trade grounds. They charged that the agreement amounted to a technology "giveaway" that would support Japanese industrial efforts to build a commercial aircraft industry able to compete head-on with the powerful U.S. sector. Also, the relevant government economic agencies were not appropriately involved in the review process to ensure that long-term U.S. economic interests were protected, legislators maintained. A group of senators also sent a letter to President Bush requesting a "complete review" of the FSX deal before the project was implemented.

[1]Japan-American Society of Washington Luncheon Program, "Does Economic Competition Undermine Strategic Alliances?" featuring Michael W. Chinworth, Massachusetts Institute of Technology; Ellen Frost, United Technologies Corp.; Ronald Morse, Library of Congress; and Gregg Rubinstein, International Technology and Trade Associates, Inc., September 22, 1989, Washington, D.C.

The ensuing dissension within the administration marked an important milestone in U.S.-Japan defense relations in that it effectively forged the trade/defense linkage. Commerce Secretary Mosbacher argued that DOD, State and the National Security Council -- proponents of the FSX deal -- were trying to "steamroll" the agreement through Congress without regard to their statutory responsibility to involve his office in deliberations on projects that affect the U.S. defense industrial base. (Under U.S. law, before any work on a joint defense project can begin, the administration must submit a license application for the proposed technology transfer to Congress, which in turn has 30 days to review it.)

As a result of the outcry, primarily from the economic agencies, the White House asked DOD and Commerce in mid-February to more fully assess the strategic, commercial and technological implications of the FSX project. Inter-agency squabbling became so intense that President Bush eventually issued a "tentative" approval of the MOU -- pending additional clarifications aimed at safeguarding vital U.S. technology and assuring that American manufacturers would have a fairly substantial share of the work during both the development and the production phases of the project.

This action effectively reopened talks on a project that Japan had regarded as a "done deal." More important in the long term, however, the call for clarifications implied a lack of trust among certain U.S. policymakers over how Japan would implement the FSX agreement. This, in turn, engendered feelings of frustration, resentment and distrust in Tokyo that, as will be discussed below, no doubt has dampened Japan's desire to pursue further joint defense projects. Given the protectionist furor in Congress fueled by the bilateral trade deficit, however, Tokyo grudgingly entered into the clarification discussions.

The agreement that eventually emerged from these talks was announced by President Bush April 28. It included the following points, incorporated as side letters to the original MOU:

- Work share guarantees - The United States is guaranteed "about a 40 percent" share of production in addition to a similar share of the development work. This provision sought to address concerns expressed by some American policymakers that MHI would "take the technology and run;" that is to say, they feared that after development and testing of the FSX prototypes, the prime Japanese contractor would cut U.S. companies out of the important, income-generating production phase of the project and build the aircraft on its own.

- Technology transfer - To address industrial base concerns, Japan will not have access to key U.S. defense technologies, such as the source codes, or computer software, governing the fighter's digital flight control system. Source codes for the mission control (weapons control) computer will be released to the Japanese only to the extent that they need them to integrate their own avionics into the aircraft.

- Technology flowback - There are more explicit guarantees that the United States will have access to Japanese improvements to the F-16 technology.

- Technical steering committee - Unique to defense coproduction agreements, this committee will oversee the development phase of the project and monitor the reciprocal flow of technology and the allocation of work shares.

The panel will be cochaired by officers of the U.S. Air Force and the Japan Air Self-Defense Force but also will include representatives from Commerce and the Pentagon.

Legislators seized on their 30-day review of the export license as an opportunity to tear apart the accord. Sen. Alan Dixon (D, Ill.) May 1 introduced legislation (S.J. Res. 113) disapproving the F-16 technology transfer; Rep. Mel Levine (D, Calif.) followed suit in the House with H.J. Res. 254. Administration policymakers, now united, sought to assure legislators that the "revised" FSX agreement would not undermine U.S. economic and security interests. (See JEI Report No. 21A, May 26, 1989, for a summation of the arguments for and against the deal.)

At the bottom line, the White House succeeded in persuading enough members of the Senate that the project should go through -- but just barely. After heated debate the upper house voted down the Dixon resolution by a close 52-47 vote that cut across party lines. Since disapproval by both houses was required by May 31 to kill the deal, the Senate vote made moot further House action on H.J. Res. 254. (To underscore concerns about the trade ramifications of the FSX project, the lower house June 7 took a purely symbolic action and voted, 320-98, for a resolution to disapprove the F-16 technology transfer.)

However, the White House did not win carte blanche approval of the FSX MOU. Following its action on the Dixon resolution, the Senate passed 72-27 S.J. Res. 123 introduced by Sen. Robert Byrd (D, W.Va.) that, while it backed U.S. participation in the FSX project, imposed certain conditions that must be met during the development and the production phases. The conditions essentially sought to firm up the guarantees included in the side letters concerning delineation of work shares and the transfer to Japan of critical engine technology (see JEI Report No. 20B, May 19, 1989). The House on June 7 approved companion legislation by a 262-155 vote.

President Bush July 31 vetoed this legislation, arguing that the conditions were unnecessary since they already were embodied in the MOU and the side letters. The White House seemed most concerned that the measure would set an unwise precedent by opening the door to greater congressional meddling in defense technology transfers. In his veto statement the president charged that the Byrd resolution violated the constitutionally mandated separation of powers since it would have enabled the legislative branch to intrude on the chief executive's negotiating authority.

Congressional FSX opponents took one final shot at the joint defense project by attempting to override the president's veto. However, the Senate, by a 66-34 tally, failed by one vote September 13 to obtain the two-thirds majority needed to override the chief executive's disapproval (see JEI Report No. 36B, September 22, 1989). Since two-thirds of both houses of Congress must disapprove a presidential veto, the Senate outcome no doubt will preclude further consideration of an override by the House.

Congress' failure to further circumscribe the terms of the FSX agreement means that work on the project can continue without any potential interference. (In June the White House gave General Dynamics and MHI the green light to begin the development phase.) However, the imbroglio stirred up by the deal will have long-lasting effects on bilateral defense cooperation as well as on overall U.S.-Japan relations.

Most important, the reservoirs of support and enthusiasm in both countries for bilateral defense codevelopment/coproduction deals have been seriously depleted. U.S. insistence on renegotiating what both sides initially had regarded as a final agreement naturally has engendered distrust in Tokyo that Washington is not good for its word. Reacting to the razor-slim margin by which the president's veto was sustained, Japanese government officials stated that Japan should adopt a more cautious approach in proceeding with the FSX project, especially in negotiating the separate MOU that will govern the production phase. It is precisely this reaction -- which congressional FSX critics attribute to Tokyo's untrustworthiness and ambition to promote its commercial aircraft industry at the expense of its U.S. counterpart -- that will stir up the debate again in a couple of years (see JEI Report 34A, September 1, 1989). Legislators remain poised to push their way into discussions when U.S. and Japanese officials sit down to negotiate the production agreement.

In terms of U.S.-Japan defense policy, however, this episode has further complicated strategic planning between the two countries. Pentagon officials no longer will be able to consider with their Japanese counterparts mutual defense needs without greater attention to the potential economic impact of these plans. Moreover, the precedent set by the establishment of the FSX technical steering committee means that DOD may no longer monopolize certain aspects of bilateral defense discussions. The trade/defense linkage has been institutionalized. With the FSX deal, Commerce succeeded in getting its foot in the door and can be expected to push for even greater participation in negotiations concerning other high technology transfers.

Defense Industrial Base Concerns - The linkage between defense needs and economic problems also is apparent in legislators' focus on the decline in the U.S. high technology sector -- the industries on which this country's national security strategy greatly depends. Declining competitiveness in key U.S. manufacturing fields, particularly the semiconductor and other leading-edge high technology electronics industries, has forced the Pentagon to rely increasingly on foreign suppliers for defense-related parts and components. This growing foreign dependence has raised concerns about the reliability of supplies and, in turn, the vulnerability of the U.S. military during times of global crisis. More important, it has created alarm that the United States may be losing the ability to stay at the forefront of technological advances considered vital to maintaining a defense capability that is qualitatively superior to the Soviet Union's.

Although Congress and the administration began addressing this issue in earnest last year, concerns about flagging U.S. industrial competitiveness have been percolating for quite a while. In reality, the burdensharing debate and the FSX controversy and other technology transfer disputes grew out of policymakers' recognition that the health of the U.S. industrial base is in trouble. The Defense Science Board, Office of Technology Assessment and certain Pentagon offices, among other groups, have produced reports that all point to the erosion of U.S. industries considered vital to defense preparedness and the increasing dependence on foreign sources to compensate for these weaknesses (see JEI Report No. 24A, June 24, 1988).

Since Japan is the leading source of many technologies, the manner in which this debate plays out is important. Various congressional committees continued their review of the subject this year (see JEI Report No. 28B, July 21, 1989). Although policy options are being deliberated that address

domestic factors affecting U.S. competitiveness, as the FSX and Aegis disputes indicate, a growing anxiety concerning America's declining industrial prowess may begin to close the doors on future bilateral technology flows.

There also is a possibility that policymakers increasingly may resort to protectionist measures in an effort to reverse this country's growing dependence on foreign sources for defense-related parts and components. Japanese suppliers of machine tools, bearings, plastic injection molding machines and industrial fasteners already have felt the effect of requests that the U.S. government impose import restrictions to protect key defense industries that are deemed to have suffered trade-related injury. The failed attempt by Fujitsu, Ltd. to acquire Fairchild Semiconductor Corp., a company that produced integrated circuits critical to U.S. defense work, is another example of a protectionist response to problems in American industry. In the same vein, Congress' burdensharing stipulation that Japan make more off-the-shelf defense purchases may be viewed as an effort to preserve markets for U.S. producers.

Impact on Japanese Defense Planning

What impact has the trade/defense linkage in U.S. policy had on Japan's defense planning and programs? Although U.S. defense officials still deplore this approach, even they cannot deny that congressional cries for allied defense spending increases have provided useful bargaining leverage for U.S. negotiators pressing Tokyo for greater military and foreign aid expenditures to meet expanded roles and missions. Indeed, the past five years have seen steady, quantitative increases in defense spending (admittedly, from a very small base) as well as qualitative improvements in weapons systems and armed forces training.

Increases in defense spending of approximately 6 percent annually since FY 1983 have given Japan the sixth- or seventh-largest military budget in the world -- a development that is all the more striking considering the extreme political sensitivity, both nationwide and regionwide, of a greatly expanded Japanese military role. For these reasons, Tokyo often complains that the strides it has taken over the years to satisfy its roles and missions are not appreciated by American legislators who persist in citing the bilateral trade account as evidence that Japan should be doing more.

The 1986-90 Mid-Term Defense Plan - The following summarizes Japan's moves to meet the goals set forth in its 1986-90 Mid-Term Defense Plan. This is the third program undertaken as part of the 1976 National Defense Program, a comprehensive outline that stipulates the level of defense that should be maintained by Japan in peacetime and gives guidelines for the improvement of Japan's military capabilities.

- Procurement - On August 31 JDA requested a 6.4 percent increase in spending for FY 1990, which would bring its budget next year to Y4.16 trillion ($29.7 billion at Y140=$1.00). The agency contends it needs this amount to complete the final year of the 1986-90 plan, which generally has focused on improving and expanding Japan's capabilities in air defense, antisubmarine warfare, ground force response to a manned invasion, and improved command, communications, intelligence and reconnaissance capabilities. Both JDA and DOD believe that if Tokyo can achieve its targets for this plan, it will be able to adequately defend its sealanes out to 1,000 nautical miles, a goal set forth in a 1981 joint communique signed by then-President Ronald Reagan and then-Prime Minister Zenko Suzuki (see Table 2).

Table 2: Attainment of Defense Buildup under National Defense Program Outline

Classification	Outline	FY 1988	Program Completion
SDF Personnel	180,000	189,000	180,000
GSDF			
Units Deployed Regionally			
Divisions	12	12	12
Composite Brigades	2	2	2
Mobile Operations Units			
Armored Division	1	1	1
Artillery Brigade	1	1	1
Airborne Brigade	1	1	1
Training Brigade	1	1	1
Helicopter Brigade	1	1	1
Low-Altitude Surface-to-Air Missile Units (anti-aircraft artillery groups)	8	8	8
MSDF			
Antisubmarine Surface Ship Units for Mobile Operations (escort flotillas)	4	4	4
Antisubmarine Surface Ship Units for Regional District Units (divisions)	10	10	10
Submarine Units (divisions)	6	6	6
Minesweeping Units (flotillas)	2	2	2
Land-Based Antisubmarine Aircraft Units (squadrons)	16	14	16
Major Equipment			
Antisubmarine Surface Ships	60	60	62
Submarines	16	15	16
Combat Aircraft	220	171	214
ASDF			
Aircraft Control and Warning Units	28	28	28
Interceptor Units (flight squadrons)	10	10	10
Support Fighter Units (flight squadrons)	3	3	3
Air Reconnaissance Units (flight squadrons)	1	1	1
Air Transport Units (flight squadrons)	3	3	3
Early Warning Units (flight squadrons)	1	1	1
High-Altitude Surface-to-Air Missile Units (anti-aircraft groups)	6	6	6
Major Equipment			
Combat Aircraft	430	401	415

Source: Japan Defense Agency, Defense of Japan, 1988

The proposed budget breakdown for FY 1990 would allocate Y1.5 trillion ($10.7 billion) to the Ground Self-Defense Force for, among other things, 30 Type-90 tanks, 73 armored personnel carriers, 50 artillery pieces, 32 SSM-1 surface-to-ship guided missiles and 10 AH-1S Apache antitank helicopters. The Maritime Self-Defense Force has requested Y91.8 billion ($655.7 million) for a second Aegis destroyer, a submarine and 11 P3-C Orion antisubmarine patrol

planes and other equipment. The Air Self-Defense Force hopes to buy 11 F-15J Eagle fighters, two CH-47J transport helicopters, two E-2C early warning planes and 80 Patriot surface-to-air missiles with its Y1.1 trillion ($7.9 billion) request. Spending for military research and development, including the FSX fighter, is penciled in at Y104.2 billion ($744.3 million), which represents a 13.2 percent increase over this year's level.

As this budget request indicates, Japan has remained committed to expanding and upgrading its weapons systems. For example, the two E-2Cs that ASDF plans to purchase will be used to form a third air early warning unit; 10 E-2Cs comprise the first two AEW units. A third transport helicopter unit will be formed to serve western Japan with the purchase of the two CH-47Js. While the FY 1987 budget broke new ground in funding an over-the-horizon radar site for defense against long-range Soviet Backfire bombers, next year's request includes plans to procure for the first time two EPS-3 fixed, three-dimensional defense radar systems.

MSDF also remains committed to the Aegis system, despite efforts in Congress to block these sales and apparent concerns about the system's effectiveness after its role in the 1988 U.S. Navy's shoot-down of an Iranian commercial plane. Japan's navy continues to praise the system and reportedly plans to buy two more.

Another noteworthy feature of Japan's FY 1990 defense plan is that American defense contractors continue to benefit from Tokyo's military buildup. Japan buys about $1 billion worth of hardware from the United States annually. "Right now we have a good deal," a Pentagon official was quoted recently as saying. "Of the military equipment Japan procures from foreign sources, nearly 100 percent comes from the United States." Indeed, the largest aircraft programs involve joint production, such as the antisubmarine warfare patrol aircraft involving Lockheed Corp. and Kawasaki Heavy Industries, the E-2C developed and produced by Grumman Corp., the F-15J jointly produced by McDonnell Douglas Corp. and Mitsubishi Heavy Industries and the CH-47J, which brings together Boeing Co. and KHI.

As will be discussed below, however, this trend may be changing. Support for indigenous development of defense systems has gathered considerable momentum in recent years, and some defense analysts believe it represents the wave of the future.[2] Support within Japan's defense industry for indigenous development of the FSX, for example, was so strong that were it not for the Japanese government's realization that bilateral relations would have suffered as a consequence, there might not have been a joint project today (see JEI Report No. 21A, May 26, 1989).

- Host nation support - Other line items in the FY 1990 budget are Y43.6 billion ($311.4 million) to pay Japanese workers at U.S. bases as well as Y166 billion ($1.2 billion) to help pay for the direct costs of maintaining U.S. forces in Japan. Under the U.S.-Japan Mutual Security Treaty, Japan provides base facilities for U.S. forces. The bases not only represent the U.S. commitment to Japan's security but they also are critical to speedy U.S deployment in the Asian Pacific arena. Tokyo's spending in this area amounts to approximately 40 percent of the $6 billion cost of maintaining U.S. forces at over 100 military facilities in the Japanese archipelago.

[2]Interview with Michael W. Chinworth, Director of Research, M.I.T.-Japan Science and Technology Program, Center for International Studies, Massachusetts Institute of Technology, September 8, 1989.

As discussed above, burdensharing advocates have zeroed in on this aspect of Japan's defense program. Some legislators believe Japan should bear 100 percent of the direct costs of maintaining U.S. troops on Japanese soil. They substantiate their demand by citing, among other sources, an August 1989 report by the U.S. General Accounting Office. GAO said that, in light of the steep appreciation of the yen against the dollar since 1985, U.S. costs could be cut by $600 million annually if Japan were to assume more of the costs that must be paid in yen, such as utilities, road maintenance, ship repair and so forth.[3]

Tokyo contends that these demands exceed what it legally may do under the 1960 Status of Forces Agreement, which stipulates the costs that the United States and Japan each should bear to support the American troop presence. Citing SOFA Article 24, which provides that "the United States will bear for the duration of this agreement without cost to Japan all expenditures incident to the maintenance of the United States armed forces in Japan" except for certain specified exceptions, Tokyo maintains that payment for utilities and so forth exceeds these statutory limitations. Thus, if the United States wants Japan to bear these additional costs, the SOFA will have to be amended, Japanese government officials insist. And amending the SOFA, which would require Diet action, could open a Pandora's box. The Japan Socialist Party, which historically has not supported the U.S.-Japan security treaty, no doubt would use its stronger Diet presence to insist on a comprehensive review of the entire bilateral defense relationship.

• Joint planning and maneuvers - A marked increase in joint military exercises and strategic planning has enhanced the ability of the two countries' armed forces to operate together. The 1978 "Guidelines for U.S.-Japan Defense Cooperation" set the stage for regular planning discussions to consider joint action in meeting a threat to Japan. U.S. defense experts believe the planning process itself has been of tremendous value in providing each side with a more realistic perception of the other's capabilities.[4]

Joint military training also is on the rise. Although initially these exercises were limited in scope, usually involving only MSDF in maneuvers with the U.S. Navy, all SDF branches now participate in joint training exercises with U.S. forces. The most recent naval drill began September 29 in the Pacific Ocean off Japan. Concurrently, U.S. forces will be engaged in two months of multinational military maneuvers, involving all of America's forces in the Pacific as well as the forces of the Philippines, Thailand and Australia, the so-called PACEX drill. Japan's constitution prohibits it from engaging in "collective security" arrangements, where its defense forces go to the aid of an allied country should that country be attacked by a third party. Thus, Tokyo has been adamant that the U.S.-Japan drills, although on the periphery of PACEX, will be separate and apart from U.S. maneuvers with its other regional allies.

[3]U.S. General Accounting Office, "U.S.-Japan Burdensharing: Japan Has Increased Its Contributions But Could Do More," August 1989, p. 4.

[4]Gregg Rubinstein, "U.S.-Japan Security Relations," The Fletcher Forum, XII, No. 1, Winter 1988, p. 45.

• Official development assistance - Although not formally a part of the mid-term defense buildup, foreign aid has been a part of Japan's overall self-defense plan since the early 1980s when then-Prime Minister Masayoshi Ohira introduced the concept of "comprehensive security." Tokyo has used foreign economic assistance to promote political and economic stability, which, it believes, not only complements its military buildup but offsets the fact that it interprets the constitution as barring Japan from acquiring an offensive capability. Thus, as America's cries for defense burdensharing have become louder, Japan has continued to expand its aid program (see JEI Report No. 25B, June 30, 1989).

Japan's proposed FY 1990 aid budget calls for a 10.3 percent increase to Y833.3 billion ($6 billion), a spending level that in the near future is expected to propel Japan into the number-one spot as the world's leading aid donor. In fact, Foreign Minister Taro Nakayama recently confirmed Tokyo's intent: "Japan is forecast to become the world's number-one donor of aid on a disbursement basis in the near future," he said September 12. "It is contingent upon us to live up to that distinction with effort and ingenuity."

Mr. Nakayama's remarks came as he received a report from the prime minister's office that called on his ministry and other ministries with jurisdiction over foreign aid to strengthen the program. The report, which focused on the loan arm of Japan's official development assistance (grant assistance and technical cooperation constitute the other components of the program), called on the relevant ministries to redouble their efforts to ensure that overseas assistance is "appropriate, effective and efficient."

Congressional burdensharing advocates have urged Japan to spend even more on foreign aid. On the one hand, it must please Tokyo that Washington is beginning to acknowledge the defense-related value of its aid program and the fact that Japan increasingly has targeted this assistance to countries of strategic importance, such as the Philippines, Turkey, Pakistan and Egypt. On the other hand, Japanese officials get frustrated that U.S. legislators do not appear to have a complete understanding of the extent of Tokyo's aid activities. Again, they feel it is unfair to demand that Japan spend more simply because, as a percentage of GNP, Japan's ODA still is only about 0.32 percent. Whether Tokyo's budget can accommodate the sort of increases Capitol Hill is demanding remains to be seen.

Outlook for the 1991-95 Mid-Term Defense Plan - JDA soon will begin work on the next five-year defense plan, which will be presented to the Diet next summer for approval. It is difficult to predict exactly what the plan will include in light of the uncertain political situation in Japan as well as unforeseen economic and external political developments. However, Japanese defense experts predict some of the following:

• Budget and procurement - Tokyo probably will continue annual increases in the defense budget of about 6 to 7 percent; this level still does not risk substantially exceeding 1 percent of GNP, a politically sensitive limit. In addition, it appears that JDA will remain committed to the full gamut of joint defense planning with the United States as well as a qualitative upgrade of its weapons capabilities.

Judging by a variety of reports from Tokyo -- which JDA at this point will not confirm -- there appears to be growing interest in procuring airborne

warning-and-control systems (AWACS) from the United States. Following a shift in GSDF priorities away from coastline interdictions to offshore interceptions in the early stages of a conflict, the ground forces reportedly would like to introduce the Multi-Launcher Rocket System. Within the next 20 years GSDF hopes to expand to 1,000 its helicopter fleet, including more than 100 CH-47Js. Other long-range procurements reportedly under JDA review include ASDF's acquisition of aerial refueling tanker aircraft and MSDF's procurement of a light aircraft carrier.[5]

• Indigneous vs. joint development - Perhaps the most significant shift in Japan's defense program in the next five years will be its increasing reliance on indigenous systems to replace and upgrade those formerly purchased from the United States. Although the prospect of commercial spin-offs undeniably has affected Japanese interest in indigenous weapons development,[6] it is important to bear in mind that Tokyo also has a strong interest in developing a home-grown arsenal for national security reasons. All major industrialized countries -- not just Japan -- accept the inefficiencies inherent in building an indigenous defense industry as a necessary "cost of sovereignty."

Moreover, the FSX flap appears to have engendered in Japan such anger and distrust for the United States that the prospects for new joint projects might not look as attractive to Japanese companies. According to Yutaku Amatsu, news editor for Asahi Shimbun in Osaka, the Japanese people believe that the United States broke the original MOU unilaterally, a policy reversal that has sparked considerable dissatisfaction and anti-American criticism. "The United States has lost its tolerance as the leader of the West," Mr. Amatsu stated. "It does not care about tolerance or manners any more in defending its interests."[7] The burdensharing legislation, coming nearly on the heels of the FSX episode, also no doubt has further enflamed Japanese sentiments about th possibility of undertaking new defense ventures with its most important ally.

Even before the FSX controversy reached its height, however, the Japanese government already had announced several development programs, including plans for a new medium-range surface-to-air missile, an antiship missile, a new medium-thrust supersonic jet engine and software for an advanced antitactical missile system.[8] Each program is intended to develop a domestic system to replace one currently supplied by the United States. For example, the medium-range SAM will replace the Hawk developed by Raytheon Corp., which currently is

[5]"Japan Raises Defense Spending To Fund Missile, Aircraft Programs," Aviation Week & Space Technology, March 20, 1989, p. 89.

[6]Richard J. Samuels and Benjamin C. Whipple, Defense Production and Industrial Development: The Case of Japanese Aircraft (Cambridge, Massachusetts: Massachusetts Institute of Technology, M.I.T.-Japan Science and Technology Program, 1989), p. 4.

[7]Yutaku Amatsu, presentation at the Japan-American Society of Washington Program, "Japanese Press Perceptions of U.S.-Japan Relations," September 27, 1989, Washington, D.C.

[8]Chinworth, op. cit.

produced under license in Japan; the antiship missile will replace McDonnell Douglas' Harpoon, of which the guidance system is licensed for production in Japan. Tokyo also reportedly plans to develop an alternative to the U.S.-designed shoulder-fired Stinger antiaircraft missile. What the FSX dispute appears to have generated is additional impetus to this trend. Even American policymakers recognize this: "Our two systems can't stand many more FSX controversies," an administration official was recently quoted as saying.

Conclusion

Economic competition between the United States and Japan has transformed bilateral defense relations. As the FSX episode illustrated, it is no longer possible for defense policymakers to evaluate security needs without consideration of their potential economic impact. But it also is important for American policymakers to recognize that Japan's economic and technological prowess is nudging it toward greater military self-reliance. Thus, although the U.S.-Japan security treaty will remain a pillar of the alliance and Japan will retain its self-defense posture, the bilateral defense relationship may experience some additional "growing pains" as Washington contends with a more autonomous partner.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.